

Rating Action: Moody's changes Nippon Accommodations Fund's rating outlook to stable from positive

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Tokyo, June 01, 2017 -- Moody's Japan K.K. affirmed Nippon Accommodations Fund Inc.'s (NAF) A3 issuer rating and changed its rating outlook to stable from positive.

RATINGS RATIONALE

"The stable outlook better reflects NAF's high leverage relative to its cash flow. Given the stability of the business and financing model, we believe NAF will maintain leverage around the current range," says Moody's Vice President - Senior Analyst Akifumi Fukushi.

NAF's stable rating outlook reflects NAF's stable cash flow generated from a large, well-diversified portfolio consisting of 118 residential properties with 11,709 units, at end-February 2017. Regular rent increases from a large pool of residential customers and a consistently high occupancy rate (above 95%) have sustained cash flow levels.

Given the current intense competition for property acquisitions, NAF's J-REIT competitors are struggling to purchase properties that generate sufficient yields. In that regard, Moody's believes NAF is relatively well positioned and is able to be selective in its asset purchases, mostly from its sponsor Mitsui Fudosan Co., Ltd. (A2 stable).

Lack of recent acquisitions has led to a moderate growth in EBITDA. As a result, NAF's net debt/EBITDA improved to 10.3x in the fiscal half-year ended February 2017 from 11.4x in February 2015, but still at a relatively high level for its rating.

NAF's liquidity coverage ratio had declined to around 100% at end-August 2016 and end-February 2017, from above 150% at end-February 2015 and end-August 2015. Moody's expects this erosion in liquidity coverage is temporary, due to the timing of near-term debt maturities, and that NAF's liquidity risk is manageable, because of the strong relationships that the company has with its bankers as well as its sponsor, Mitsui Fudosan.

An upgrade could result if NAF maintains a notable decrease in leverage through debt reduction and/or equity issuance, so that net debt/EBITDA is sustained in the low 9x range, and debt/gross assets remains below 45%.

NAF could be downgraded if the quality of its cash flow deteriorates, and financial leverage stays at a higher level, for example, net debt/EBITDA above 11.5x and debt/gross assets above 50%.

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms (Japanese) published in October 2010. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Nippon Accommodations Fund Inc., headquartered in Tokyo, is a J-REIT with an investment portfolio of residential properties.

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